

**DOD CONTRACT
MANAGEMENT CONFERENCE**

IMPACT '73

1968 DALLAS, TEXAS

DISTRIBUTION STATEMENT A
Approved for Public Release
Distribution Unlimited

20060109 208



**REPORT OF PANEL 14
PRICING**



DEFENSE SUPPLY AGENCY

HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22314

29 November 1968

To The Recipients of This Publication:

In the fall of 1968, a DoD Contract Management Conference was held in Dallas, Texas. Attending this conference were some of the foremost authorities in the field of contract management from both government and industry.

The objectives of this conference were to identify the major contract management problems of today and develop specific action programs for their resolution. These participants assembled to identify the long-range trends and problems in contract management and develop actions, plans, and goals to insure an effective and efficient operation in the future.

This publication is a record of the thoughts and ideas expressed at this meeting. It is a record which is being used in developing and implementing the recommendations expressed by these very able panel chairmen and conferees who worked so hard to produce this product.

A handwritten signature in black ink, appearing to read "J. L. Howard", is positioned above the typed name.

J. L. HOWARD
Rear Admiral, SC, USN
Chairman
DoD Contract Management Conference

FINAL REPORT

Panel 14 - Pricing

Impact 73 Conference - Dallas, Texas

30 September thru 3 October 1968

Chairman

Colonel Edward H. Robertson, USAF
Executive Director, Contract Administration
Defense Supply Agency, Cameron Station,
Alexandria, Va. 22314

Co-Chairman

Mr. Raymond E. Harris
Chief, Contract Pricing Branch
Army Materiel Command, T-7
Washington, D. C. 20315

Date: 31 October 1968

TABLE OF CONTENTS

<u>Part</u>	<u>Title</u>	<u>Pages</u>
1	Panel Objectives	1
2.	Panel Organization and Proceedings	1 - 2
3	General Areas Covered in Panel Deliberations	2 - 3
4	Findings and Recommendations in Cost and Overhead Rate Determinations	4 - 6
5	Findings and Recommendations in Contractor System Review Programs	6 - 7
6	Findings and Recommendations in Pricing Tools, Techniques, and Practices	7 - 8
7	Findings and Recommendations in Pricing Organizations and Functions	9 - 10
Appendix A	Final Report Presented at the Dallas Conference	11 - 16
	Individual Panelist's Papers Selected for Publication	
Appendix B-1	DoD Management of Contractor Overhead Expenses	17 - 21
Appendix B-2	Uniform Cost Determinations	22 - 30
Appendix B-3	Contractor Procurement Systems Review Program	31 - 36
Appendix B-4	Subcontract Pricing Reviews	37 - 41
Appendix C	Biographies of Each Panelist	42 - 49
Appendix D	Subtopic Assignments to Panelists	50 - 54
	Panel Photograph	55

Part 1 - Panel Objectives

The function of procurement pricing is an integral part of the procurement process and is carried out by all elements of the DoD, either as part of other procurement functions or as an identifiable organizational element. It is accomplished in both purchasing and contract administration services (CAS) activities. When accomplished at the purchasing activity, its primary purpose is to assist the procuring contracting officer (PCO) in determining that prices being paid by the government for supplies and services are fair and reasonable. When accomplished by the contract administration activity, it also serves the same purpose when the administrative contracting officer (ACO) has been assigned final pricing responsibility (such as for spare parts pricing). In addition, the CAS pricing function also includes the review and evaluation of contractor proposals to be negotiated by the PCO, determination of reasonableness of costs claimed under cost-type contracts, and contractor management systems reviews.

The objectives of Panel 14 were to examine the CAS pricing function and major problems, trends, and goals which affect pricing performance, and to recommend any changes considered necessary for improvement.

Part 2 - Panel Organization and Proceedings

The panel was comprised of sixteen members, including the chairman and co-chairman. Membership was well distributed between all of the military departments and agencies, as well as NASA. Two were from Army, four from Navy, three from Air Force, four from DSA/DCAS, one from DCAA, one from OASD(I&L), and one from NASA. Biographies of each of the panelists are contained in Appendix C. As most of the panelists were in high-level staff or operational positions, it was believed that they had a wealth of experience and knowledge to draw from in identifying CAS pricing matters that should be considered by the panel. Accordingly, each panelist was requested to identify a primary and alternative topic that he could present to the panel for consideration. The panel was also interested in any new ideas, suggestions, or problem areas concerning the pricing organizations, responsibilities, and capabilities of CAS organizations.

Accordingly, such comments were solicited from staff and operating activities of the military departments and DCAA. About one hundred thirty replies to this solicitation were received, and were also considered in identifying the subjects to be considered by the panel.

Based on the topics selected by the panelists, as well as the field inputs, four major topics were selected for deliberation by the panel, as follows:

- A. Cost and Overhead Rate Determinations
- B. Contractor System Review Programs
- C. Pricing Tools, Techniques, and Practices
- D. Pricing Organizations and Functions

Within each of these major areas, sub-topics were assigned to and presented by individual panelists to the full panel. The agenda used to control the panel's proceedings reflects sub-topics assigned to individual panelists, and is enclosed as Appendix D. Each presentation was discussed before the entire panel membership. These discussions indicated that there were a number of diverse opinions and conflicting ideas as to whether any problems exist, whether these are "people" rather than organizational or procedural problems, and the course of action that should be recommended by the panel. We believe that the resulting findings and recommendations were objectively developed and represent the most thorough airing by top procurement personnel on these subjects that has taken place since the Hershey Conference. Details concerning each of these subjects, findings, and recommendations made by the panel are contained in Parts 4 through 7 of this report.

A brief summary of the Panel 14 proceedings and results was presented at the conclusion of the Dallas Conference on 3 October 1968. A copy of this summary is included herein as Appendix A.

Part 3 - General Areas Covered in Panel Deliberations

There is probably no one area in the entire procurement cycle that arouses more interest, demands more professional time and attention, and is subject to more analysis and review than the

function of determining the amount to be paid by the government for goods and services--the function known as "pricing." At the last DoD-wide conference held at Hershey about one year ago, this subject was thoroughly aired, and some three hundred recommendations for effecting further improvements were made. Many of these recommendations, if adopted and properly implemented, will result in even further improvement. However, the dynamic nature of procurement pricing and the need for constant evaluation of its effectiveness warrants another look at current problems and potential solutions. The principal problems involving procurement pricing have not changed significantly over the years, but it is hoped that the means of isolating and solving them may be nearer at hand. During the past three years, the dynamic changes that were made in contract administration and audit organizations were believed to be significant improvements in reducing overlap and duplication of capabilities that then existed in each of the departments. While the panel believes that we were highly successful in this respect, we are still reacting to these changes as they concern functional assignments and are continuously attempting to more clearly define responsibilities and authorities of the PCO, ACO, and DCAA organizations. As the Hershey recommendations to study consolidation of DCAS and DCAA into a single agency is currently under study by the Logistics Management Institute, it was determined that the panel should not specifically address this item. However, some of the pricing problems that were considered by the panel concerned the organizational independence of these two activities, and their resolution should be held in abeyance pending the outcome of that study. We are also continually identifying problems dealing with the prime contractor's responsibility for subcontract pricing, particularly in view of P.L. 87-653, and with the need to obtain improvements and perhaps more standardization in contractor cost and financial accounting practices. While pricing techniques are considered to be generally adequate, there is also a need for improvement or at least a better understanding of the use of catalog pricing, the methods of communicating pricing information between the CAS/DCAA activities and the PCO, using price analysis in lieu of cost analysis techniques, and measuring the effectiveness of the various members of the pricing team.

Part 4 - Findings and Recommendations in Cost and Overhead Rate Determinations

Background. The organizations, procedures, and practices of the military departments for settling overhead rates and for making cost determinations vary within and between each department. While this may be practical in view of the organizational differences involved, it is difficult to properly manage and control the overhead function. Related to this problem is the fact that the contract auditor is required to make unilateral determinations regarding the disallowance of costs and the final settlement of overhead rates on an actual basis. Consistency and uniformity in making these decisions are important, and we must constantly strive for the proper balance. In considering the ways in which improvements could be effected in these areas, the panel gave detailed consideration to each of these problems. As a result, the panel agreed that recommendations should be made in the following areas:

A. DoD Management of Contractor Overhead Expenses

Findings. Management visibility and control of contractor overhead costs by the government involves a number of intrinsically related functions such as forward pricing agreements, advance agreements on selected items of cost, reviewing the contractor's management system which generates such costs, settlement of final overhead rates, and monitoring the contractor's overhead performance on a day-to-day basis. Present policies fragment responsibility for these related functions between the ACO, auditor, and the Tri-Service negotiator. As only one example, responsibility for the single function of final settlement of overhead costs is assigned to any one of these three individuals, depending on whether the contractor is on the Tri-Service list or whether his contracts contain a negotiated overhead rate clause. The net result is that each of these three individuals is responsible for only his part of total overhead management and control, with no one of them recognizing that they have overall management responsibility for such control. These problems were recognized during the Hershey Conference, and recommendations to resolve them were made. However, these recommendations were somewhat contradictory; thus, no clear course of action was indicated. In an attempt to resolve these contradictions

and suggest a positive course of action, the panel has developed the recommendations which follow. These findings and related recommendations were based upon the Panel Discussion Paper prepared and presented by Mr. Raymond E. Harris, which is included in this report as Appendix B-1.

Recommendations

1. That OASD(I&L) establish a central overhead coordinating committee as defined in the Hershey reports, and require each department to establish a departmental overhead office to manage the function of overhead management and to provide support and guidance to its ACOs on unusual or major overhead negotiation problems.
2. That the Corporate ACO program being developed under the Contract Administration Panel of the ASPR Committee be approved and published in ASPR as soon as possible to assure that a uniform system of overhead management is established for multi-divisional contractors.
3. That a feedback system for gaining greater visibility of contractor overhead costs be established at the overhead offices of each of the military departments.

B. Uniform Cost Determinations

Findings. A detailed examination of this subject by the panel has resulted in the conclusion that Panel 10 at the Hershey Pricing Conference has thoroughly and completely covered this subject and developed appropriate recommendations, with one possible exception. This exception deals with the lack of uniformity in the application of generally accepted accounting principles. The recent passage of Section 718 of Public Law 90-370 requires the Comptroller General to undertake a study to determine the feasibility of applying uniform cost accounting standards in all negotiated prime and subcontracts over \$100,000. Machinery has been established at the OSD level to support this study effort. The panel was unanimous in its agreement that the buying and contract administration activities of the departments have a vital interest in this study and its outcome, and accordingly should participate in all such efforts. These findings and the

related recommendation were based upon the Panel Discussion Paper prepared by Mr. Michael J. Francone, which is included herein as Appendix B-2.

Recommendation. That OASD(I&L), supported fully by departmental procurement functions, take an active role in the Comptroller General study.

Part 5 - Findings and Recommendations Concerning
Contractor Systems Review Programs

Background. There are a number of formal and informal programs that have been developed over the years in the government to assist in monitoring contract costs. The degree of formality varies, but all are aimed at the primary objective of looking at the contractor's methods, policies, procedures and practices as they affect all of his government business, rather than merely looking at the system after the costs are incurred or at the time he is being considered for an individual award. Some of these system oriented reviews include the contractor's compensation programs, insurance and pension programs, estimating methods, procurement methods, travel and per diem policies, quality assurance systems, and property control systems. While time did not permit the panel to deliberate on each of these systems which bear on procurement pricing, the same general findings and conclusions could be applied across-the-board to all. Our specific efforts were devoted to contractor estimating methods programs and procurement system reviews, which are two formal programs well recognized within the DoD and industry. The Estimating Methods Program has been under the management control of DCAA for the past three years. It requires a team effort of the auditor and CAS personnel, and surveys are intended to improve contractor estimating methods and thereby reduce government efforts in performing pricing reviews on individual contractor proposals that are subject to analysis of cost and pricing data.

The Contractor Procurement System Review Program, which is managed and conducted by the CAS elements of each of the military departments, has resulted in significant improvement in contractor procurement practices and savings in both government administration time and procurement costs can be identified. However, the program is not being carried out with consistency and uniformity by all of the departments.

Based on the panel's deliberations, the following findings and recommendations relating to all contractor systems review programs that affect procurement pricing were developed:

Findings. The DoD policy highlights the importance of assuring cost and performance effectiveness in balance with the needs of the departments for system reviews in contractor's organizations. The overall objective of individual programs should be to avoid any areas of duplication and reduce the scope of reviews where contractor efficiencies have been demonstrated. The panel was of the unanimous opinion that effectiveness can be raised to a higher level. The findings and recommendations developed by the panel were based on the Panel Discussion Paper submitted and presented by Mr. James E. Cravens, which is included herein as Appendix B-3.

Recommendations

1. That OASD(I&L) designate one of the departments as the central manager for promulgation of policy guidelines and standards for training and reviews of contractors' management and functional systems, such as the Contractor Procurement System Reviews. Departments should maintain operating responsibility for contractors' operations under their cognizance.

2. Annually, the central manager of individual programs should provide OSD(I&L) and the Departmental Secretaries with an analysis of the cost versus benefits of the programs. DCAA should provide OSD with a similar annual analysis of the relative value of the Contractor Estimating Methods Review program.

Part 6 - Findings and Recommendations in Pricing Tools, Techniques, and Practices

Background. The panel recognized that many techniques for improving pricing were developed at the Hershey Conference, but that there is a continuous need to review pricing practices. The primary subjects considered by the panel in this area included catalog pricing, management of pricing data, increased use of price (as contrasted to cost) analysis, measuring the utility and effectiveness of the CAS pricing function, obtaining access to contractor cost and pricing data, and the performance by the government of subcontract

pricing reviews. With the exception of subcontract pricing reviews, the majority members of the panel were in agreement that the recommendations made at the Hershey Conference adequately covered each of these subjects and that no further suggestions or recommendations for improvements were necessary. With regard to subcontract pricing, the panel was unanimous in finding that ASPR clarification is required as noted below.

Findings. ASPR is not clear on when pre-award pricing reviews of subcontracts should be made by auditors and CAS personnel. Practices vary. Full use has not been made of the requirement for obtaining and relying on subcontractor cost and pricing data under implementation of P.L. 87-653. Contractors are and should be responsible for the pricing of their subcontracts. Government reviews should not be substituted for making the prime contractor obtain and review subcontractor cost and pricing data. Government audit or field review should be made only when desired or attempted by the prime contractor but he is prevented from conducting the review due to conflicting interests with the subcontractor. Government reviews can tend to relieve the liability of the prime contractor under the Public Law. DoD policy should clearly express the concept that the prime contractor should obtain needed cost or pricing data and make all required reviews, which will become part of the prime contractor's certified data. Exceptions to this policy should be limited to situations such as when the prime and sub are competitors or affiliates. Under such circumstances, there should be a clear understanding, in writing, as to the degree of information to be released to the prime and that this action by the government does not relieve either the prime or sub of their liability or responsibility under the contract or under the Public Law. This finding and related recommendation were based on the Panel Discussion Paper prepared and presented by Mr. Charles E. Jarrett, which is included herein as Appendix B-4.

Recommendation. Clearly establish in ASPR that it is the DoD policy not to perform pre-award pricing reviews of subcontracts, subject to the conditions detailed in the above findings.

Part 7 - Findings and Recommendations in Pricing Organizations and Functions

Background. The present organizational philosophy of the DoD is that field pricing support should be utilized by buying activities, rather than having each buying activity establish an independent capability for performing in-plant reviews of contractor cost and pricing data. The alignment or realignment of functions between the PCO and ACO should be reviewed to determine where improvements can be made and to establish a posture for more effective use of the pricing/negotiation capabilities of both activities, particularly for the long-range future. In deliberating on this subject, the panel considers that improvements can be made in two major areas as follows:

A. Pricing Organizations

Findings. The pricing function is performed in every department and agency. Although the objectives are identical, the procedures and organizations vary widely. The function is not clearly recognized as a professional function and therefore suffers from manning, grading, and career problems. To assist with solving these problems, a DoD directive is needed to establish clearly that the function exists, how it is accomplished, and the extent of responsibilities. This was a recommendation at the Hershey Conference, and has received considerable attention by the Procurement Pricing Subcommittee. The DoD directive need not establish rigid organizational requirements within the individual departments and agencies beyond a headquarters staff and a clear identification of the function--no matter where performed. Many of the other problems identified at this conference and the Hershey Conference are symptomatic of the lack of such a clear identification of the function and clear responsibility for assuring its accomplishment. The panel was unanimous in the recommendation which follows.

Recommendation. That OSD develop and publish a DoD directive covering the pricing function within DoD, and this task be given the highest priority.

B. Pricing Functions

Findings. The majority members of the panel are in agreement that there is obvious and widespread lack of understanding as to what field pricing support should encompass, how it should be used, and what functions are performed by whom. The problem lies in the definition and assignment of tasks to achieve optimum pricing. Accordingly, the majority developed the following recommendations:

Recommendations

1. That a searching review be made to delineate precisely the parts of the pricing function that can best be performed in the field, and the responsibilities of each support element.
2. That a standard format, consistent with Chapter 14 of ASPM No. 1, be developed for requesting field assistance, furnishing field inputs and providing PCO/ACO feedback.

DALLAS CONFERENCE
IMPACT 73
FINAL REPORT - PANEL 14 PRICING

GENTLEMEN -

1. I'm sure you are all looking forward to this report, not necessarily because of the importance of the recommendations we are making, but because it's the last report. The subjects related to procurement pricing that have been covered to some extent by the other panels and by our "friendly enemies" in industry on Monday made our job easier. The industry comments, in particular, gave us a great amount of food for thought.
2. We doubt if there is any one area in the entire procurement process that currently is arousing more interest, demanding more time and attention, or is subject to more management control, review, and inspection than the pricing function. Many of our friends in Congress and the GAO gain a lot of mileage out of this subject, but each mile exacts its penalties in the way of additional demands on DoD resources for reviews, investigations, and recriminations. However, it's a way of life we in procurement have gotten used to, and to reiterate Mr. Malloy's statement on Monday, things will get worse before they get - - worser.
3. During the past 3 years, the changes that were made in the contract administration and audit organizations were believed to be significant improvements in reducing overlap and duplication of the capabilities that then existed in each of the departments. It was acknowledged during Monday's discussions that the DoD was highly successful in this respect. However, we are still reacting to these changes as they concern functional alignments, and a great deal of time has been spent throughout the DoD in attempting to more clearly define responsibilities of the PCO, ACO, and audit organizations.
4. At the Hershey conference held last fall, the subject of procurement pricing was thoroughly aired, and about 300 recommendations for effecting further improvements were made. Some of you may question why we thought it necessary to have the subject of pricing assigned to a panel at this conference in light of Hershey. It was felt

that some of the recommendations should be reevaluated in light of current experience, and that there is a need to constantly evaluate the effectiveness of the procurement pricing function. Concerning the Hershey Conference, we are well aware of all of the work that has been done by LMI and the ASPR pricing subcommittee in analyzing and classifying the Hershey recommendations. However, much remains to be done to insure that these recommendations are considered and adopted or otherwise disposed of. Top level management within OASD and the military departments should continue to give top priority attention to the resolution of the recommendations as soon as possible.

5. To identify any new ideas, suggestions or problems that should be considered, we solicited field comments from staff and operating elements of the Army, Navy, Air Force, DSA, DCAS and DCAA. Some 130 replies were received, many of which were very helpful in our deliberations. However, the majority of them confirmed that problems continue to exist at operating levels in interface relationships and functional alignments between the PCO, ACO and auditor. You may recall that a number of these kinds of problems were also disclosed at Hershey. As the Hershey findings and recommendations relating to interface problems have all been referred to LMI, our panel concluded that many of these problems cannot be fully resolved until the results of that study are known.

6. In organizing for our panel's effort, each panelist identified a subject that he felt should be considered by the panel. These subjects, plus the field inputs, gave us some pretty broad coverage of the pricing function, but we were able to classify the topics into 4 major subject areas. While the complete panel deliberated and argued each case, sub-groups were established to summarize the problems, findings, and recommendations in each area. The first area concerned contract cost and overhead rate matters, and we have 4 recommendations in this area.

a. Management visibility and control of contractor overhead costs by the government involves a number of intrinsically related functions such as forward pricing agreements, advance agreements on selected items of cost, reviewing the contractor's management system which generate such costs, settlement of final overhead rates, and monitoring the contractor's overhead performance on a day to day basis. Present policies fragment responsibility for these

related functions between the ACO, auditor, and Tri-Service negotiator. As only one example, responsibility for the single function of final settlement of overhead costs is assigned to any one of these three individuals, depending on whether the contractor is on the Tri-Service list or whether his contracts contain a negotiated overhead rate clause. The net result is that each of these three individuals is responsible for only his part of total overhead management and control, with no one of them recognizing that they have overall management responsibility for such control. These problems were recognized during the Hershey conference and recommendations to resolve them were made. However, these recommendations were somewhat contradictory; thus, no clear course of action was indicated. In an attempt to resolve these contradictions and suggest a positive course of action, the Panel submits the following recommendations:

Recommendations:

1. That OASD (I&L) establish a central overhead coordinating committee as defined in the Hershey reports and require each department to establish a departmental overhead office to manage the function of overhead control and to provide support and guidance to its ACO's on unusual or major overhead negotiation problems.
2. That the Corporate ACO Program being developed under CAP be approved and published in ASPR as soon as possible to assure that a uniform system of overhead management is established for multi-divisional contractors.
3. That a feedback system for gaining greater visibility of contractor overhead costs be established at the overhead offices of each of the military departments.
 - b. The recent passage of Section 718 of Public Law 90-370 requires the Comptroller General to undertake a study to determine the feasibility of applying uniform cost accounting standards in all negotiated prime and subcontracts over \$100,000. Machinery has been established at the OSD level to support this study effort. The buying and contract administration activities of the departments have a vital interest in this study and its outcome, and accordingly should participate in all such efforts.

Recommendation: It is recommended that OASD (I&L), supported fully by departmental procurement functions, take an active role in the study.

7. The next area concerned Contractor Systems Review Programs, in which we have two recommendations. The Department of Defense policy highlights the importance of assuring cost and performance effectiveness in balance with the needs of the Departments for systems reviews in contractor's organizations. The overall objective of individual programs should be to avoid any areas of duplication and reduce the scope of reviews where contractor efficiencies have been demonstrated. It is considered that effectiveness can be raised to a higher level.

Recommendations:

1. That OASD (I&L) designate one of the Departments as the central manager for promulgation of policy guidelines and standards for training and reviews of contractors' management and functional systems such as the Contractor Procurement System Reviews. Departments should maintain operating responsibility for contractors' operation under their cognizance.

2. Annually, the central manager of individual programs should provide OSD (I&L) and the Departmental Secretaries with an analysis of the cost versus benefits of the programs. DCAA should provide OSD with a similar annual analysis of the relative value of Contractor Estimating Procedures Surveys.

8. The third area concerned the broad subject of pricing techniques. We have one recommendation in this area concerning subcontract pricing. ASPR is not clear on when pre-award pricing reviews of subcontracts should be made by auditors and contract administration personnel. Practices vary. The full use has not been made of the requirement for obtaining and relying upon subcontractor cost and pricing data under implementation of PL 87-653. Contractors are and should be responsible for the pricing of their subcontracts. Government reviews should not be substituted for making the prime contractor obtain and review subcontractor cost and pricing data. Government audit or field review should be made only when desired or attempted by the prime contractor but he is prevented from

conducting the review due to conflicting interests with the subcontractor or there is a clear economy in the form of eventual Government cost due to the existence of a resident Government staff at the subcontractor. Government reviews can tend to relieve the liability of prime contractor under PL 87-653.

Recommendation:

Clearly establish in ASPR that it is the DoD policy not to perform pre-award pricing reviews of subcontracts. The prime contractor will be expected to obtain needed cost or pricing data and make required reviews and this will become part of his certified data. Exceptions to this policy will be limited to situations such as when the prime contractor and the subcontractor are competitors or affiliates. Under such circumstances, there should be a clear understanding, in writing, as to the degree of information to be released to the prime and that the Government action does not relieve either the subcontractor or the prime contractor of his liability or responsibilities under the contract or PL 87-653.

9. The last area concerns functions of the pricing organizations within the DoD. We have three recommendations on this subject:

a. The pricing function is performed in every department and agency. Although the objectives are identical, the procedures and organizations vary widely. The function is not clearly recognized as a professional function and therefore suffers from manning, grading, and career problems. To assist with solving the problems, a DoD directive is needed to establish clearly that the function exists, how it is accomplished and the extent of responsibilities. This was a recommendation at Hershey and has received considerable attention by the Procurement Pricing Subcommittee. The DoD Directive need not establish rigid organizational requirements within the individual departments and agencies beyond a headquarters staff and a clear identification of the function no matter where performed. Many of the other problems identified at this conference and the Hershey Conference are symptomatic of the lack of such a clear identification of the function and clear responsibility for assuring its accomplishment.

Recommendation: OSD develop and publish a DoD Directive covering the Pricing Function within DoD and that this be given the highest priority.

b. There is obvious and widespread lack of understanding as to what field pricing support should encompass, how it should be used, and what functions are performed by whom. The problem lies in the definition and assignment of tasks to achieve optimum pricing.

Recommendations:

1. A searching review be made to delineate precisely the parts of the pricing function that can best be performed in the field, and the responsibilities of each support element.

2. A standard format consistent with Chapter 14, ASPM #1 be developed for requesting field assistance, furnishing field inputs, and providing PCO/ACO feedback.

10. In the interest of saving time, I have discussed only those recommendations that are considered to be the most significant products of our panel deliberations. Our final report will include some other less important recommendations made by the members of Panel 14. It is suggested that these recommendations be integrated with the Hershey recommendations and priorities established to act on the most important ones immediately. The implementation of these recommendations should contribute a great deal to improving the pricing function both within CAS and buying activities. Much additional work remains to be done and the staff organizations of the departments have, through conferences such as this, been alerted to the need for a constant evaluation of the pricing function within their departments. Many of the panels have talked of the need for better communication and improved understanding of the other fellows' problems. To me these DoD-wide conferences are one of the best ways to obtain these improvements, which leads me to our final recommendation, which, I am sure, is shared by all of the participants at this conference. Let's continue to have conferences of this nature. Thank you.

Panel No. 14 - Pricing

Panel Discussion Paper Presented by Raymond E. Harris

Major Subject: DoD Management of Contractor Overhead Expenses

Subtopic: A more aggressive role by DoD/CAS in contractor overhead management

Discussion: Studies made by the DoD/NASA Overhead Study Group, results of the DoD/CAS reorganization, and the proportion of total DoD procurement dollars spent on contractor overhead costs under circumstances of limited cost reduction control, indicate an immediate need for a coordinated study of organization, training, policies and procedures relating to contracting overhead management with particular emphasis on the role of the DoD/CAS organization. Most of the improvements needed in the management of contractor overhead expenses were included in the recommendations of the DoD-Wide Procurement Pricing Conference held in October-November 1967 at Hershey, Pa. These recommendations are summarized below:

1. In order to improve uniformity of cost interpretations, each service should establish a formal overhead office; then a DoD central committee should be formed to assure needed coordination. (Recommendation No. 131)
2. The central overhead coordinating committee (see para 1 above) should publish guidance, DoD-wide, on the application of cost principles. (Recommendation No. 132)
3. The advance negotiation of overhead rates plan should be service-tested with a limited number of contractors, under the DoD/NASA Overhead Study Group. (Recommendation No. 133)
4. Determination is needed as to whether advance agreements for indirect expense rates (i.e., overhead, IR&D, forward pricing rates, etc.) should be utilized to a greater extent in forward pricing. (Recommendation No. 134)

5. ASPR 15-107 needs clarification as to (1) which contracting officer should execute advance agreements where the cost of more than one contract is involved; and (2) for contractors under Tri-Service, who is to execute advance agreements. (Recommendation No. 135)

6. Improved coordination is needed between the PCO, ACO, and auditor prior to entering into advance agreements to determine the possible impact on the contractor's other government business. This should be established in ASPR 15-107. (Recommendation No. 136)

7. Determination is needed as to the extent to which advance agreements are binding on other procurement, contract administration and DCAA organizations and activities. This needs clarification in ASPR 15-107. (Recommendation No. 137)

8. The DoD/CAS should negotiate final overhead rates for the contractor's plant; and for multi-plant contractors, the DoD/CAS administering the largest portion of the firm's dollar volume should negotiate corporate expense and guide other negotiations. Needs ASPR coverage. (Recommendation No. 138)

9. The reasonableness and equity of policies and practices governing the treatment of IR&D, B&P, and excess contract definition costs should be re-examined, with special emphasis given to their combined effect on profit. (Recommendation No. 139)

Note: Further details concerning each of these recommendations were submitted with the Panel Discussion Paper, but have been eliminated from this report to conserve volume. The Recommendation Numbers referenced above are keyed into the ASPR Pricing Subcommittee inventory of recommendations resulting from the Hershey Pricing Conference and copies of these recommendations may be obtained from the author or the Pricing Subcommittee members.

Other improvements besides those contained in these recommendations are necessary in order to establish a viable system for overhead management. Current studies are under way to determine what further improvements may be made in overhead control.

It is believed, however, that a complete system of overhead management can be created now under which all activities involved in contractor overhead control are considered.

Contractor overhead management should be directed mainly at those contractors and profit centers which hold a preponderance of low risk contracts. CWAS considerations in the selection of these contractors and profit centers should be guiding.

The system of overhead management employed should have the following characteristics:

1. The establishment of a Central Overhead Coordinating Committee and departmental overhead offices to determine negotiation responsibility and to collect experience and disseminate guidance to field activities on unusual overhead negotiation problems.
2. The establishment of the corporate ACO in appropriate circumstances to assure that a uniform system of overhead management is created for multi-divisional contractors.
3. Conduct of annual overhead rate negotiations by the ACO responsible for total overhead control, with policy guidance provided by the departmental or regional overhead specialist.
4. Recognition of the fact that the responsibility for the finality of overhead costs and advance agreements on overhead costs go hand-in-hand. This tool (advance agreements) should be available to the ACO responsible for total overhead management.
5. A system for negotiating bidding rates and tracking of overhead costs should be established throughout DoD as part of total overhead management.
6. Leading PCOs should be involved in the negotiation of all advance agreements, bidding rates, and final overhead rates.
7. The ACO responsible for total contractor overhead management should be provided greater visibility on a current basis on overhead cost trends. The present method of processing reimbursement vouchers should be revised to provide him current visibility on cost trends.

As may be seen above, most of the measures described were the subject of recommendations made during the 1967 DoD-Wide Procurement Pricing Conference. Failure to adopt these recommendations so far may be attributed to conflicting viewpoints on overhead management, some of which are discussed below:

Viewpoint. Negotiation of overhead rates is a specialized function. Development of expertise and need for consistency requires the maintenance of a small cadre of experts at the major command or departmental levels. Contract administration specialists have neither the training nor the capability to undertake this job.

Comment. These views are largely correct. At present, the DoD/CAS organization is not staffed with personnel with sufficient depth of overhead negotiation know-how to insure that every contractor is receiving the same treatment. This lack could be corrected by the establishment of the DoD/NASA Central Overhead Coordinating Committee to which proposed disagreements with contractors could be forwarded for guidance. This present need for guidance could also be provided through the establishment of an overhead element in DCASRs, which is presently being considered. The error in this point of view is that it does not consider the total overhead management problem. Under the centralized overhead negotiation organization, major attention is directed to the negotiation of retroactive final overhead rates, and little attention is given to overhead cost trends. Advance understandings in areas other than IR&D and B&P costs, establishment of bidding rates, and overhead tracking are not features of central negotiations.

Viewpoint. The Corporate ACO is not needed.

Comment. The establishment of a complete system of overhead management, including the negotiation of bidding rates, judicious use of advance understandings, overhead cost tracking, and final negotiation of overhead rates, necessitates the assignment to see that the entire job is done, particularly where the contractor is multi-divisional, and different departments are assigned contract administration responsibility at different locations.

Viewpoint. Forward overhead rate agreements, advance understandings on particular items of cost, and other forward agreements which affect periods beyond those presently assigned for contract administration, impinge on the functions of PCOs, in that they limit flexibility in establishing reasonable contract prices.

Comment. This may be true to a degree. Total overhead management, which can only be achieved by the participation of the ACO, requires the use of forward pricing rates and advance understandings on particular cost elements. The assignment of this responsibility to the cognizant ACO or CACO appears to provide the most logical means for improving present cost controls. The involvement of leading PCOs in these negotiations should eliminate the objections to the negotiation of advance agreements by the ACO.

Finding: The need exists for the establishment of contractor overhead management within DoD to establish, immediately, the necessary organization, training program, and procedures to enable DoD/DCAS to undertake its proper role in overhead management.

Recommendation: That immediate action be taken to provide the following:

1. Establishment of the DoD/NASA Overhead Coordinating Committee and the departmental overhead offices.
2. Establishment within DoD/CAS of the Corporate ACO where required to provide total overhead management for multi-divisional contractors.
3. Establishment within DCASRs of an overhead office to provide expertise in the negotiation of overhead rates.
4. Establish throughout DoD/CAS a program for the negotiation of forward pricing rates, advance understandings on particular cost elements, and means for tracking overhead costs to provide total overhead management.

Panel No. 14 - Pricing

Panel Discussion Paper Presented by Michael J. Francone

Major Subject: Cost and Overhead Determination

Subtopic: Uniform Cost Determination

Summary of Problem: How can greater uniformity be achieved? Do we need reorganization or realignment of functions to accomplish this, or can the cost principles be applied within the existing framework to achieve the desired degree of uniformity?

Discussion: In the opinion of this author, the problem as stated above was thoroughly and completely deliberated by Panel No. 10 of the 1967 DoD-wide Procurement Pricing Conference held at Hershey, Pennsylvania. It is believed that the conclusions and recommendations made at that time adequately covered organizational as well as other changes required within the DoD establishment in order to obtain a greater degree of uniformity in cost determinations.

There is, however, one facet of the problem of uniform cost determinations which was not addressed during the Hershey Conference, and which will undoubtedly continue to be a pricing problem in 1973 unless some action is initiated at this time. This problem deals with the absence of uniformity in the application of generally accepted accounting principles. The problem is one of long standing and was rejuvenated by certain recent events which ultimately culminated in the passage of Section 718 of Public Law 90-370, 1968 Extension of the Defense Production Act. This section provides "The Comptroller General, in cooperation with the Secretary of Defense and the Director of the Bureau of the Budget, shall undertake a study to determine the feasibility of applying uniform cost accounting standards to be used in all negotiated prime contract and subcontract defense procurements of \$100,000 or more. In carrying out such study the Comptroller General shall consult with representatives of the accounting profession and with representatives of that segment of American industry which is actively engaged in defense contracting. The results of

such study shall be reported to the Committees on Banking and Currency and the Committees on Armed Services of the Senate and House of Representatives at the earliest practicable date, but in no event later than eighteen months after the date of enactment of this section."

The balance of this paper is addressed to the absence of uniformity in contractors' accounting and cost accounting systems, all of which are alleged to be in accordance with "generally accepted accounting principles and practices appropriate to the particular circumstances," but which, nevertheless, result in nonuniformity of cost determinations. Anyone familiar with DoD contracting will, of course, recognize that "application of generally accepted accounting principles appropriate to the particular circumstances" is one of the requirements of ASPR 15-201.2 - Factors Affecting Allowability of Costs. While there is not complete agreement as to the specific degree to which ASPR Section XV is to be used in pricing all DoD contracts, certainly there can be little doubt that the provisions of this Section are the strongest single influence in pricing any negotiated DoD contract where the price is based on cost or pricing data submitted by a contractor. Since determinations concerning allowable costs on Government contracts must, in accordance with ASPR, consider generally accepted accounting principles, a review and discussion of these principles are necessary to understand how they contribute to a lack of uniformity in Government cost determinations.

In this regard, a review of the history of generally accepted accounting principles will quickly show that while much remains to be done, there have been continued and increasingly successful attempts by the accounting profession to develop principles which have been "generally accepted." The desirability of uniformity in the application of such principles, however, has been, and continues to be, debated in the profession and little, if any, progress has been made in this regard. Arguments pro and con concerning the question of uniformity in accounting have in essence changed very little over the years as can be seen by comparing the statements contained in a report by the Senate Select Committee on Interstate Commerce, issued in 1886, with statements made in any recent professional accounting or industry utterances concerning this subject.

In response to the question, "Should corporations engaged in interstate commerce be required to adopt a uniform system of accounts?", the following statements were included in the report:

PRO:

1. The advantage of the uniformity and simplicity thereby secured is indispensable to a proper comparison of the results of operation.

2. Unless such uniform system of accounts was kept, it would be impossible for the commissioners or their clerk to know what the actual net earnings of the company were.

CON:

1. It would be very difficult, if not impossible, for all transportation companies to adopt a uniform system of accounts. Many things incident to the accounts of one company do not appear or belong in those of another . . . I do not think a uniform system of accounts could be adopted by all corporations engaged in interstate commerce, nor do I regard it as important they should.

2. From one point of view, a uniform system (of accounts) would serve many advantages under all circumstances, but upon general principles I am so much opposed to limiting the scope and actions of individuals that I think we could forego many obvious advantages for the indirect benefit that results from every citizen being allowed to use his intellect in his own way and compete with all others for better results. It encourages originality and develops ingenuity.

As evidence that much remains to be done at the present time to achieve greater uniformity in generally accepted accounting principles, I quote from "Accounting for Defense Contracts" by Dr. Howar Wright published in 1962: "Generally accepted accounting principles are nowhere set forth, they are replete with alternatives, and there are few criteria for the use of the alternatives . . ."

More pertinent to this discussion, however, is the recognition that even if there existed a greater degree of uniformity in generally

accepted accounting principles as they exist today, they would be of little help in making uniform cost determinations because up to this time these principles have been concerned primarily with financial accounting, not with cost accounting. To the extent that these principles have involved results of operations, it can be said that they covered some facets of cost accounting in its broadest sense. I believe, however, that it is widely recognized both within as well as outside the profession that the pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants have not been particularly concerned with those aspects of cost accounting which relate to the determination of costs by departments, functions, products and contracts. Likewise, they have not been concerned with forecasted future costs. This situation is also commented on in Dr. Howard Wright's "Accounting for Defense Contracts" which states: "Generally accepted accounting principles are concerned primarily with financial accounting, not with cost accounting. But cost data required for contract purposes are cost accounting, not financial accounting data. Here the situation is less satisfactory than with generally accepted accounting principles. Cost Accountants have been so preoccupied with practice that no generally accepted rationale for cost accounting has ever been developed by a professional body. Thus, in the cost accounting area there is no generally accepted statement of cost accounting principles which could be used in a contract to express the will of the parties."

Even more current evidence of this point is contained in the testimony of J. S. Seidman* before the Senate Committee on Banking and Currency in connection with the 1968 Amendment of the Defense

*Mr. Seidman appeared before the Committee on his own behalf and is shown in the Hearings Report simply as Accountant, New York City. He is, however, a past president of the American Institute of Certified Public Accountants, was recently elected to the Accounting Principles Board of that organization and over the years has served as both an employee and advisor to the Navy Department, the House Appropriations Committee, General Accounting Office, Bureau of the Budget, and the Treasury Department.

Production Act which in pertinent part states:

"It is sad but true that many of the accounting principles are not the immutable truths the dictionary says they are supposed to be. To the contrary, they are more like the weather that can change from one company to another.

"As a result, two companies operating under the same set of facts may show widely different costs and profits. Conversely, two companies operating under a widely different set of facts may show the same costs and profits.

"Much of this is documented in Research Study No. 7, published by the American Institute of Certified Public Accountants in 1965. It contains scores of items that can be treated two or three different ways. This accounting double- or triple-gaitedness applies to areas that are mighty significant in determining cost under defense contracts. I will name just a few - depreciation, research and development, inventories, pensions, self-insurance, small tools, lease financing.

"Mind, the accounting principles I have referred to are only the starting point in the costing problem. They determine the lump-sum figures for a company. Brand new variables enter the scene in allocating the lump-sum totals to particular products, contracts, or activities.

"Classic examples of these additional variables are: How to apply general overhead to a specific product; how to allocate overtime or premium time between Government and commercial work or between one Government contract and another; what to do about interest on investment or method of financing; at what figure to take work done by affiliated companies.

"In all these areas accounting principles are bigamists when monogamy is acutely needed. To be married to two or more ways of treating the same thing creates a credibility gap that sorely needs closing. That is especially true where, as in defense procurement, \$45 billion of taxpayer money is involved each year.

"The Government, occupying as it does a fiduciary role, must do its buying prudently, intelligently, and efficiently. To discharge this trust it must act on the basis of uniform accounting standards. Only in that way can contract price proposals or reported profit results have any meaning."

The absence of criteria for the use of the various alternatives permitted by generally accepted accounting principles, together with the fact that such principles deal only slightly, if at all, with cost accounting, obviously contribute to differing and nonuniform cost accounting by contractors for the same item. How then can it be expected that Government determinations concerning costs which are generated by these systems will be uniform? These considerations are particularly pertinent to the area of indirect or overhead costs, since these costs generally include items such as depreciation, pensions, taxes, research and development, lease costs, etc., all of which can be treated various ways, each described as "generally acceptable." For example, generally acceptable accounting principles and practices permit the charging against income of real and personal property taxes during any one of the following periods*:

1. Year in which paid.
2. Year ending on assessment (or lien) date.
3. Year beginning on assessment (or lien) date.
4. Calendar or fiscal year of taxpayer prior to assessment date.
5. Calendar or fiscal year of taxpayer including assessment date.
6. Calendar or fiscal year of taxpayer prior to payment date.
7. Fiscal year of governing body levying the tax.
8. Year appearing on tax bill.

*AICPA Accounting Research Bulletin No. 43, Chapter 10, Section A.

Careful study of authoritative accounting pronouncements would show that while systematic accrual on the books of account over the fiscal year of the taxing authority is preferred, the accrual over various other periods is accepted practice. Here, as in most pronouncements of this type, a primary consideration is consistency of application as between periods.

Generally accepted accounting principles concerning the proper distribution of costs devote considerable attention to determinations of whether a particular item of cost should be capitalized or expensed. Emphasis is given to this consideration because the computation of net income requires the matching of revenues with the expenses incurred to produce that revenue as far as it is possible to do so. While this emphasis is understandable and certainly necessary, it does not provide guidance concerning the allocation of such costs to the various products or items which may be involved. Where a concern is involved in the performance of Government contracts, the allocation of costs to individual contracts or cost objectives is frequently an area not only of prime importance, but also the subject of extensive controversy between the Government and contractors. For example, let's discuss the considerations involved in accounting for general and administrative expenses. From a financial point of view such expenses are normally considered period expenses and the prime concern is to identify them with a proper period. The accounting principles mentioned above would assist in the determination of total G&A expenses to be considered applicable to a period of performance under Government contracts. This determination, however, is only the beginning of the costing problem associated with Government contracts, namely to allocate such costs to many different types of individual contracts. Since there is no authoritative accounting principle enunciated in this area, many different practices which have been devised and consistently used over the years by many different companies have become regarded as generally accepted. Under these conditions, when the use of any one of these practices or methods is challenged by the Government as not being equitable or appropriate, the immediate retort raised by the contractor is that his method is in accordance with generally accepted accounting practices. This contention frequently becomes the central issue in litigations of this type at the expense of the real issue, namely that of equity. Evidence of this situation is clearly shown in ASBCA Case No. 10395 - Litton

Systems, Inc., in which a substantial portion of the litigation was devoted to testimony by expert accounting witnesses on both sides. The Government witnesses contended that proper accounting and equity dictated a change in the contractor's method of allocating G&A, whereas the contractor's witnesses contended that the method used was a generally accepted one, representative of a year's activity and that its consistent application over time created equity.

Conclusions and Recommendations: Determinations concerning allowability of costs on DoD contracts must, by regulations, consider among other factors, the application of generally accepted accounting principles. Such principles as have been promulgated to date provide many alternative methods for treating particular accounting transactions but few, if any, criteria as to the circumstances under which the alternatives should be applied. In addition, there have been few, if any, principles developed concerning costing by departments, functions, products or contracts. In order to achieve greater uniformity in cost determinations on DoD contracts a prime requisite, in addition to the improvements in DoD's internal operations recommended at the Hershey Conference, is a requirement that uniform cost accounting principles, standards, or guidelines be used by industry in accounting for costs on Government contracts. It is recognized that the overwhelming weight of opinion in the DoD as well as industry and the accounting profession during and immediately subsequent to the hearings on P.L. 90-370 was opposed to the establishment of such a requirement. The views of those who oppose such action were clearly presented during these hearings. Notwithstanding the strong and convincing argument by those in favor of maintaining the status quo, the Congress still felt that there was a need for further objective consideration and passed a law requiring the Comptroller General, in cooperation with the Secretary of Defense and the Director of the Bureau of the Budget to undertake a study to determine the feasibility of applying uniform cost accounting standards. The law also requires that in the performance of this study, the Comptroller General shall consult with representatives of the accounting profession and that segment of industry engaged in defense contracting. Certainly, the study into the many deep and complex accounting considerations involved in this area will encounter strong parochial and self-serving views steeped in tradition. It is significant to note, however, that subsequent to the enactment

of the law the environment began to change. The accounting profession in particular and to a lesser degree the defense industrial community have agreed and even volunteered to furnish most any assistance that might be required to perform this study. Because of the interdependence of uniformity in generally accepted accounting principles and uniform cost determinations on Government contracts, this panel should recommend that DoD support the study with every reasonable resource and priority in order that the long standing issue of uniformity in cost accounting can be conclusively resolved by a complete and objective study. This support should include the active participation of all interested elements in the DoD so that the many and diverse rationales and supporting evidence can be considered during the study.

Panel No. 14 - Pricing

Panel Discussion Paper Presented by James E. Cravens

Major Subject: Contractor Systems Review Programs

Subtopic: Contractor Procurement System Review Program

Summary of Problem: Can the Contractor Procurement System Review program be improved by achieving greater uniformity or assigning it to a single DoD organization for management?

Discussion: The effectiveness of the Contractor Procurement Systems Review program can be improved by taking a few sequential steps, the first of which is the assignment of program responsibility. Since the period between 1947 and 1952, projects covering reviews of contractors' purchasing systems have had spurts of activity every three or four years with a plateau of inaction between each short burst of enthusiasm. Departmental interest has been aroused periodically, and has waned periodically. The flaw in the overall program has been that program instructions have contained no action commitment. It has been no one's specific responsibility to carry through. One element of the overall program in one department has consistently performed almost successfully--another element of DoD has recently started toward an almost successful program. Full success for the fragmented elements cannot be obtained until the action commitment for management and coordination of the program has been executed.

The Armed Services Procurement Regulation (Section XXIII, 1 December 1966) sets forth the policies and procedures for the evaluation, review, and consent to or approval of contractors' procurement systems and proposed subcontracts. ASPR states that reliance upon a contractor's approved procurement system will usually obviate the need for reviewing and consenting to individual subcontracts. This fall-out benefit, however, is only an administrative convenience and an indicator of the relaxation of controls. The value of the Contractor Procurement System Review (CPSR) program is not found in these intermediate consequences--the value of the program is found in improved procurement and sub-contract administration policies, procedures, and practices.

An improvement in effectiveness of Contractor Procurement Systems amounting to one percent of the value of subcontracts and purchase orders would save the Government more than \$215 million this year. The benefits from a strong CPSR program accrue equally to the Government and industry.

Based on a general rule of experience, prime contractors for the Department of Defense spent \$19.5 billion through subcontracts and purchase orders in Fiscal Year 1968, and NASA's prime contractors spent another \$2 billion by subcontracting. This rule of thumb measurement (one-half of prime dollars are subcontracted) is probably too conservative because an OSD(I&L) review in 1966 showed that the top ten prime contractors, on an average, spent fifty-four percent of the prime contract dollars through subcontracting, and one of NASA's largest contractors recently subcontracted sixty-five percent of a major program.

Of course, individual reviews of subcontracts are impractical if not impossible from a manpower viewpoint, and it has long been recognized that many benefits are obtained through systems reviews. Reliability and Quality Assurance surveys and Accounting surveys have operated successfully for several years. The systems survey concept in quality control was efficiently tested during World War II and Korea and replaced the individual inspection operations for each and every part. With the development of the cost principles in ASPR XV in 1947, the systems approach to accounting reviews was fully developed. In the area that spends the money, however, only sporadic effort has been made, and these spurts of energy and enthusiasm have usually followed special Congressional and public interest in the area.

Project 1013 in the Department of Defense, OSD(I&L), in 1961 resulted in the establishment of the Defense Procurement Management Review Program, managed in the Office of the Assistant Secretary of Defense (I&L). The success of the DoD-wide Procurement Management Program, following its full implementation on January 1, 1963, led to the amendment to DoD Directive 5126.34, expanding it to encompass procurement systems review of DoD contract management organizations. Thus, the loop was closed around pre-award, award, and post-award operations at the prime contract level in DoD. Under single responsibility for coordination,

training, standards, and review techniques, the DoD program tells the Departmental Secretaries, the DSA Director, and OSD how effectively we are buying, administering, and managing such a huge activity.

Who tells the same people responsible for the initial procurement how effectively more than half of the money is spent in buying, administering, and managing through subcontracts in the prime contractors' organizations?

By 1952, we didn't just consent to subcontracts; in many cases, we approved all subcontracts above \$10,000. The buyer asked certain questions about subcontracting at the negotiation table and if the answers fit a predetermined pattern, subcontracts were continued to be approved. Between 1952 and 1955, subcontract approvals above \$25,000 were mainly to assure that a subcontractor was not on some ineligible listing and that a renegotiation clause was included.

Purchasing system approvals started about 1952, but became operational on December 5, 1955, with the publication of the Air Force AMC Manual 70-3, Manual for Analysis of Contractor Procurement. The Air Force revised 70-3 in 1957 and in 1959, and made a complete rewrite when the Air Force program was expanded during 1960 and 1961. The 70-3 manual is basically a purchasing review guide, and it was fully accepted by the National Association of Purchasing Agents. Much of the basic material has been retained in current guidelines.

In March 1960, following two Congressional blasts at subcontracting practices, a review of deficiencies in subcontracting showed the following ten leading problem areas:

1. Organization and management's attitude did not support good purchasing, and there was a lack of training.
2. Inadequate competition.
3. Ineffective subcontract administration, lack of subcontract change control.
4. Cost and pricing analysis not effective or not operating in any sense.

5. Source selection policies generating excessive sole source procurements under unjustified engineering influences.

6. Expensive small purchase procedures.

7. Inadequate negotiations, lack of documentation.

8. Insufficient use of audit data.

9. Unreasonable, unrealistic lead time.

10. Inadequate documentation in all areas.

General Samuel E. Anderson listened to the Congressional recommendations and also heard that the cut in appropriations amounting to three percent in one year and two percent in another year were based on disciplines to correct poor subcontracting. General Anderson, responsible for Air Force procurement, gave a helping hand to prime contractors' purchasing agents by making the Contractor Procurement Systems Review program an operating arm of procurement and production. Benefits accrued to industry and the Government. Purchasing Week in an article on February 6, 1961, stated that this action was elevating purchasing and keeping it from being a punchcard for other departments. The program not only reported to the Air Force, it told industry how well its purchasing departments were doing. The reviewers were similar to management consultants, and industry looked upon the program as a review of a profession by professionals, because the requirements were high.

The Air Force had fifty-eight Purchase Methods Analysts in 1961. In April 1962, the Air Force had twenty-nine major contractors with approved purchasing systems and twenty-two major contractors with unapproved purchasing systems. Today, the Air Force Systems Command has twenty-two Purchase Methods Analysts covering twenty-one AFPROs at major plants--there are now twenty-six persons in the AF program, with three PMAs at the Headquarters and one Supervisory PMA. The effectiveness of the continuing AF program is shown by the fact that there was only one disapproved system last year.

ASPR 23-106 provides that one copy of each complete report shall be provided to the Office of the Assistant Secretary of Defense (I&L), Procurement Management Review Division. OSD(I&L) has received 244 reports. Many of the reports show deficiencies in the practices which impact against effective subcontracting. The strongest recommendations for corrective action are directed toward compliance with Public Law 87-653. The following listing indicates the extent of reports with approval and the extent of reports showing significant deficient practices:

	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>DSA</u>
Fully Approved	5	10	27	121
Deficient Practices	<u>1</u>	<u>4</u>	<u>22</u>	<u>54</u>
	6	14	49	175

We see that there are 81 reports with significant deficient practices. Thus, it appears plausible that coordinated corrective action could easily raise effectiveness even more than the one percent mentioned earlier (one percent increase in effectiveness was estimated to equate with a cost saving of \$215 million. The saving could be greater if schedule and program effectiveness was included.)

Other DoD programs are publicized and coordinated with industry associations, and are supported in many professional ways by industry association subcommittees. The CPSR does not receive these benefits. The National Purchasing Management Association (formerly the National Association of Purchasing Agents) cannot work with and support a fragmented project.

What action has to be taken? Who is to take it? What does the action have to be so that it can be done? Who manages the decisions to take action? We ask all of these questions of industry purchasing departments. It is considered timely to ask these questions in our own shops.

Coordination of the program activities has not been on a planned basis. The Air Force Systems Command group does some work for the AFLogistics Command, and issues report summaries to NASA,

AEC, FAA, and others. DSA recently performed a review for the Army in the Detroit area; however, DSA's training, which is good, has not been coordinated with the departments. The Air Force grade structure has gone down in recent years. At one time, there were two GS-15's in the AF program, and a recommendation for a GS-16; today, the Air Force top grade is one GS-14 in the program, and workload has impacted on the formal training program. The lack of a coordinated review of the grade structures and training can effect both recruitment and retention of skilled professionals, and quality of the review effort.

Our policies and procedures for the CPSR program are complete. Naturally, it will take effective program direction to keep the standards updated. The next step will involve converting what we have into a totally effective action. A small amount of effort now can increase effectiveness by a large amount. The full action has not been made until its management has become someone's work assignment and responsibility.

Findings/Conclusions: It is concluded that the Contractor Procurement System Review program cannot effectively support other building blocks in the DoD-wide procurement management system without centralized management and direction. The lack of coordination of certain fragmented operating units, and the lack of participation by certain Departmental units, makes it difficult to determine how effectively industry has been discharging its procurement responsibilities. The current, incomplete program is not responsive to the needs of the Departmental Secretaries and the Director of DSA, and OSD(I&L).

Recommendation: It is recommended that the Materiel Secretaries, DSA, OSD(I&L), and the Deputy Assistant Secretary (I&L) Procurement, establish an ad hoc group of procurement management specialists for the purpose of reviewing the current program operations and providing recommendations to establish centralized management of the Contractor Procurement System Review Program in DCAS or one of the Departments.

Panel No. 14 - Pricing

Panel Discussion Paper Presented by C. E. Jarrett

Major Subject: Improving Pricing Techniques - Subcontractor
Pricing Reviews

Subtopic: When Should They Be Done - or Should They Be Done at All

Summary of Problem:

That the contractor or potential contractor is responsible for the price and the pricing of his subcontracts cannot be denied. It is clear in the regulations that this is so and it is logical that it be that way.

Why then, do Government auditors and procurement personnel perform reviews of subcontract proposals at the subcontract site? This question is so worded that the obvious review of subcontractor proposals in the hands of the prime contractors is not involved. Once the subcontractor's proposal and related back-up data, together with such evaluation as the prime contractor may perform, are in the files of the prime contractor then it becomes part of the prime contractor's records and as such, a prime candidate for evaluation.

But we know that both auditors and field procurement personnel do perform reviews of subcontract proposals much the same as they do the proposals of prime contracts. Is this in accordance with prescribed policy? To say that it is clear in ASPR would be false. Surely the fact that such reviews will be made, is recognized in the philosophy and procedural utterances in ASPR. Surely the CAM requires that reviews will be made and provides procedures for requesting and accomplishing the reviews. DCAS has no specific procedures but through letters from HQ DSA CAS has instructed field units as to when they will perform the subcontract reviews.

Discussion:

Let us examine the facts of life. The Government places millions of dollars on individual contracts and in almost every case between 30% and 50% of the prime contractor's cost is represented by subcontracts. Depending upon the circumstances there are often large

sums which are represented by subcontract situations which are not based on competition. As a result, the buyer must rely on either some sort of engineering estimate or on proposed prices based upon subcontractor cost and pricing data.

In this paper we cannot be concerned with the engineering estimates, for that is a field all to itself. More specifically the subcontractor is probably not known. But, I will cover this in a possible solution. What does concern us now is whether we should make field reviews of subcontract estimates or prices based on cost or pricing data. We can forget the legal problems for if the prime contractor has failed to provide audit rights either as part of his RFP or executed subcontract, this triggers other problems. It does happen - but not too often.

To answer this question, we must examine the consequences of not performing field reviews and what alternatives for review are available.

As to consequences:

1. A prime contract could be awarded which contains an amount for subcontracting which is significantly overstated. This can happen and has happened as can be attested by several GAO reports. But it is equally true that this has happened even where a review of subcontracting has occurred.
2. A prime contractor is prohibited from making an adequate field review because the subcontractor is a competitor or for valid reason will not permit him access. This is a familiar situation - Will Gimbel let Macy audit? You might ask, what other valid reason? If there is a DCAA audit residency and a contract administration activity constantly performing reviews, I would think it was a valid reason not to have a group of strangers pawing over the books and plant.
3. The prime contractor cannot perform an adequate field review because he does not possess the capability. Some prime contractors just do not have the audit staffs to accomplish adequate review of subcontractors no matter how willing the subcontractor may be that he perform the audit.

4. If the Government performs a field review the possibility of enforcing defective pricing against the prime for subcontract data may be impaired. Ask yourself, if the Government performs a subcontract field review and then later decides that there is defective subcontract data in the prime proposal, can you enforce the defective pricing clause? It might depend on the circumstances but it will, I am convinced, greatly muddy the water and add to the burden of proof.

Now, as to alternatives:

1. Certainly, we can and should examine the subcontract data and its evaluation in possession of the prime contractor. It would, of course, depend on how much data the prime obtained and how well he evaluated it, as to whether the auditor or field analyst could do a good job. This alternative would suggest that DoD do no independent field reviews.

2. Following alternative number 1, the Government performing reviews when requested by the prime could be considered. The PL 87-653 problems could appear but if proper disclosure or procedures were employed this hazard could be avoided.

3. The obvious other choice is to perform reviews whenever we want - which is the present situation - but I might add is not consistent throughout the DoD.

Findings and Conclusions: I now ask myself the question - hasn't the present situation developed because:

1. Old contracting practices did not envision the need for such sophisticated subcontract evaluation.

2. Contractors were not so well equipped to deal with major subcontracts.

3. New requirements require far more subcontracting but the contract types for dealing with these major subcontracts has not changed, and

4. PL 87-653 has provided new tools for dealing with the problem?

Recommendations: What we need is a new thought on the matter - so here is my new thought and recommendation:

1. Recognize that it is the prime contractor's responsibility to price and manage his subcontracts (This is in the ASPR now).

2. Require him to list all potential subcontracts over \$100,000 as an attachment to the DD Form 633, and to show the basis of the price to be:

a. Based on subcontractor cost or pricing data.

b. Based on competition or one of the other allowable exemptions of PL 87-653.

c. Based on an estimate unsupported by cost or pricing data (or by data to which the prime will not certify).

3. Require that the certificate applies fully to the disclosure and where subcontractor cost or price or data is involved, to its accuracy, currency and completeness.

4. Permit reserving any listed subcontract item, for future negotiation as to prime contract adjustment, which the parties cannot agree has been adequately supported or to which the prime will not be willing to certify under PL 87-653.

5. Permit subsequent contract adjustment of the net difference between the listed amount of the reserved subcontracts and the amount actually contracted, after Government consent as to the award. Applicable burdens and profit will also be adjusted.

6. Provide separately in the weighted-guideline determinations for recognition of the reserved items by allowing only half the profit rate otherwise allowed for subcontracts. This recognizes the risk reduction.

7. Perform no subcontract reviews pre-award unless expressly requested by the prime contractor for valid reason (such as competitor) and enter into specific agreement in each case as to the degree of data releasable to the prime and the impact of the findings.

Require specific provisions that pre-award audit or review not relieve the prime contractor from any liability otherwise required.

8. Perform subcontract reviews as requested by the ACO or PCO prior to consenting to any of the subcontracts reserved.

The value of this plan is that reliance is placed to the fullest on the tools available under PL 87-653. But cutting profits, contractors are encouraged to obtain cost and pricing data before prime contract award. There is very little incentive to achieve close pricing on the reserved items except to obtain Government consent for award. Little reliance can be placed on PL 87-653 for the reserved items except where defect is found in the subcontractor submitted data - but then there is little chance of defective prime data at this point anyway.

Since the Government negotiator sits in a driver's seat as to the subcontracts that will go on the reserved list he can greatly influence the list. If, as contractors claim, the time element is the single greatest cause for not getting subcontractor data, the Government negotiator can always delay the procurement to give time for obtaining required data. When all else fails, the reserve route is available. Then too, the specific listing of subcontracts and the basis of their pricing clearly focuses the attention of both parties on the basis of the proposal and leaves little doubt for posterity as to what was intended.

I recognize that this idea will be revolting to some - intriguing to some - and raise questions for others. It is not perfect - but then if we had perfection now there would be no problem. There is a problem and I offer this as one solution.

Biographies of Panel Members

Chairman: Colonel Edward H. Robertson, USAF

Position: Executive Director, Contract Administration, Hq DSA CAS

Biography: Was a Fighter Pilot in World War II; Project Officer - Contracting Officer on the F-86 Program from 1946 through 1950; on the Air Staff from 1952 to 1956; participated in the B-70 Program; in the Skybolt Systems Program Office from 1957 to 1961; the Air Force Plant Representative at Douglas and Hughes Aircraft Companies; the Chief of the Los Angeles Contract Management District; the Director, DCASR, Los Angeles at its inception; as Chief of Procurement and Production, Space Systems Division from 1965 to 1967; and is presently the Executive Director, Contract Administration, at HQ DSA CAS.

Co-Chairman: Mr. Raymond E. Harris

Position: Chief, Contract Pricing Branch Procurement and Production Directorate, U. S. Army Materiel Command.

Experience: Mr. Harris received his Master of Commercial Science from Stranger College of Accounting. He served as an officer in the U. S. Army during World War II. Mr. Harris' Government civil experience has included 4 years as a contract auditor with the Army Audit Agency; 10 years work involving the pricing and financing of contracts for the Army Signal Corps; 3 years as Chief, Contract Pricing and Financing Branch, Army Ordnance Corps; and 4 years in his present position.

Other Panelists:

Mr. Gordon B. Arthur

Position: Assistant Chief, Pricing and Financial Division, Air Force Systems Command.

Experience: Mr. Arthur holds a B. S. degree from Ball State University. He assumed his present position in 1961 following six years in major procurement pricing and negotiation at Wright-Patterson Air Force Base. His first government position was in contract audit with the Air Force Auditor General (2 years). Twelve years pre and post World War II were spent primarily in manufacturing plant positions in cost and general accounting. Four years military service were as an Army Air Corps Weather Forecaster. Mr. Arthur is widely known in government procurement circles from his conducting nationwide "road shows" and participation at various seminars and schools on procurement pricing subjects.

Colonel Edward J. Bartlett, USAF

Position: Director, Procurement and Production, Defense General Supply Center (DSA), Richmond, Virginia.

Experience: Colonel Bartlett's Air Force career spans nearly 25 years in procurement management. Prior to his assignment to DSA he served with Air Force IMAS teams and for three years participated in evaluation of procurement operations of several DoD aerospace contractors. Earlier assignments included duty as Chief, Procurement at 16th Air Force (Spain) and 8th Air Force in SAC. Colonel Bartlett has attended the University of Maryland and has completed various specialized courses in government procurement.

Mr. Jacob A. Catoe

Position: Navy member, ASPR Pricing Subcommittee.

Experience: Mr. Catoe was a Navy Cost Inspector during World War II and subsequently served the Navy procuring activities as a procurement liaison auditor. He later joined the Navy Bureau of Ordnance where from 1954 to 1957 was Head of the Purchase Branch and from 1957 to 1959 Assistant Director of the Contract Division. From 1960 to 1965, he was Director, Plans and Programs Division, Contracts Group, Bureau of Naval Weapons. Until recently, he was a member of the OASN(I&L) Procurement Management Review Staff.

Mr. James E. Cravens

Position: Special Assistant to the Director of Procurement, NASA.

Experience: Mr. Cravens was appointed to the position of Special Assistant to the Director of Procurement, NASA, by Mr. James Webb, Administrator. He formulates NASA policies for selection of contract type, profit/fee objectives for research and development, and pricing. His primary interest is in the research and development of innovative, structuring techniques and the formulation of procedures for the application of advanced techniques in implementing NASA's profit and pricing policies. Prior to joining NASA in July 1966 to direct its incentive contracting policies, he was employed in the DoD. He was an active participant in the Air Force Contractor Procurement System Review Program and the DoD Procurement Management Review Program between 1958 and 1966. Between World War II service in the Navy and the DoD experience, he served as the General Purchasing Agent of the Firestone Tire and Rubber Company.

Mr. Ray W. Dellas

Position: Deputy Chief, Financial Services Division, HQ DSA CAS

Experience: Graduated from Pace College in 1949, having majored in business administration, public accounting and auditing. Held positions as Chief, Cost Accounting with the JustoWriter Corporation and as Senior Auditor with New York State. Went with the Air Force in 1952 and held various positions in field contract management, including property administrator, price analyst and ACO. This experience culminated in assignment to HQ USAF, as a contract and pricing specialist in the Directorate for Procurement Policy from 1961 to 1964. Transferred to HQ DSA CAS at its inception in 1964, and has been Deputy Chief, Financial Services Division since then.

Mr. Michael J. Francone

Position: Chief, Audits Division, Office, Deputy for Audit Management, Headquarters, Defense Contract Audit Agency.

Experience: Mr. Francone holds a B.A. Degree from the University of San Francisco. For two years immediately prior to his present assignment Mr. Francone was Chief, Cost Interpretation Branch, Policy and Procedures Division, Headquarters, DCAA. During his tenure with DoD auditing organizations he served as junior auditor, lead auditor, auditor-in-charge, field supervisory auditor and Headquarters Program Manager on both Contract and Internal audits.

Mr. Leroy J. Haugh

Position: Navy Procurement Policy Member, ASPR Committee,
Office of Assistant Secretary of the Navy (I&L)

Education: College of St. Thomas, St. Paul, Minn., B.A., Political
Science, 1949; Georgetown University, JD, 1957; George Washington
University, M.S.B.A., 1966; Industrial College of the Armed Forces,
1965-1966.

Military: Navy Officer - Active Duty, 1943-46 and 1951-54.

Experience: Entered Navy in Management Intern Program in July
1954. Contract Negotiator, BuShips, 1954-1960; Staff, ASN (I&L),
1960 - present. Member of Bar, District of Columbia and Virginia;
Federal Bar Association.

Mr. Charles E. Jarrett

Position: Senior Procurement Analyst (Pricing) OASD (I&L).

Education: B.S., Indiana University, CPA (Indiana and Ohio).

Experience: DCAA Headquarters - Operations Division. USAF
Auditor General, Procurement Review and Liaison, Wright-Patterson
AFB, Ohio. Contract Resident Auditor. CWAS Training, SST
Source Selection (FAA), C-5A Source Selection (AF), Contract Ad-
ministration Panel--Project 60, 1st USAF--IMAS. Current assign-
ments - CWAS Steering Group (IAC), Procurement Pricing Sub-
committee (ASPR), Uniform Accounting Standards (Assist to
Mr. Malloy), PL 87-653.

Mr. David W. Johnson

Position: Deputy Head, Selected Acquisition Information and Management System (SAIMS) Branch, Headquarters, Naval Material Command.

Experience: Mr. Johnson earned a B. S. Degree in Chemistry and LL. B and LL. M. Degrees from George Washington University. His Government experience includes positions as contracting officer (2 years), contract specialist (7 years), electronic engineer (2 years), and material project officer (4 years). Mr. Johnson has occupied his present position for 1 1/2 years. He is responsible for NMC implementation and operation of CIR (Cost Information Reports), Economic Information System and Performance Measurement, sub-system of SAIMS.

Mr. Harry J. Rockafeller

Position: Deputy Chief, Contract Operations, Procurement and Production Directorate, U. S. Army Electronics Command, Ft. Monmouth, New Jersey

Experience: Mr. Rockafeller holds a B.S. in Business Administration from Rutgers University. Mr. Rockafeller authored the paper "The Light Observation Helicopter Avionics Package Viewed as a Total Package Procurement" - Defense Industry Bulletin, April 1967. Mr. Rockafeller's present assignment is with Contract Operations Controls which has 4 buying divisions located at Ft. Monmouth, New Jersey; Philadelphia, Pennsylvania; Washington, D. C.; Ft. George Mead, Md. Divisions are charged with placement and management of all Electronics Command Research, Development and Production contracts.

Mr. George H. Strouse

Position: Contract Price Analyst, Price/Cost and Financial Analysis Branch, Financial Services Division, HQ DSA CAS. Permanent DSA member on the ASPR Pricing Subcommittee since inception in April 1968.

Experience: Mr. Strouse is a graduate of Duquesne University and attended Temple University Graduate School. Prior to joining DCAS, Mr. Strouse served in the U. S. Air Force as: Internal auditor, Contract Auditor and Resident Auditor at contractor and Government installations; Contract Price Analyst at a buying activity; Financial Specialist and Chief of Price Analysis Policy Branch at Eastern Contract Management Region; and Procurement Analyst and Chief of Price Analysis Policy Branch at Headquarters, Air Force Systems Command.

Mr. Evert B. Tom

Position: Chief, Pricing Division, Headquarters, Air Force Contract Management Division.

Experience: Has over 16 years of Air Force pricing experience, including pricing at the field administration level, buying activity level, and staff level. For the past two years, has been assigned to present position. In this capacity has provided staff guidance and supervision to approximately 150 contract price analysts located at Air Force Plant Representative Offices throughout the Continental United States.

Mr. Richard P. White

Position: Contract Price Analyst, AFLC (MCPPP), U.S. Air Force

Experience: Mr. White earned a B.A. Degree at Miami University. His experience in the field of contract price analysis includes: 6 years with USAF, AMC Procurement (operations); 7 years with Headquarters AMC Staff; and the past 6 years with Headquarters AFLC. Mr. White served as Editor-Writer of AMCM 70-1 Air Force Guide for Pricing, its successor AFP 70-1-3, and the AFPM No. 1 Manual for Contract Pricing.

Captain Gilbert S. Young, SC, USN

Position: Deputy Commander, Purchasing, Naval Supply Systems Command, Washington, D. C.

Education: Graduated from Heidelberg College - A.B. Degree, 1942. Harvard University School of Business Administration, MBA Degree.

Experience: Captain Young served as a Line Officer, U. S. Navy during World War II. He returned to active duty in February 1947, and transferred to the Supply Corps March 1947. He served 2 years as Contracting Officer, Navy Purchasing Office, San Francisco; 3 years in Procurement Policy and Planning Branch, Office of Naval Material; 3 years as Director of the Purchasing Department, NSC Norfolk; 2 1/2 years as Director of the Purchasing Branch, Navy Purchasing Office, London; 9 months as Director of Procurement and Production, Defense Automotive Center, Detroit; 17 months as Head of the Purchase Department, Ships Parts Control Center, Mechanicsburg, Pa., 5 months as Executive Officer, Ships Parts Control Center, Mechanicsburg, Pa. He has served in his present position since July 1966. Captain Young participated on Panel #3 at Hershey, Pa.

PANEL NO. 14 - SUBTOPIC ASSIGNMENTS

A. Major Subject: Cost and Overhead Rate Determinations

Areas of Interest: The organization, procedures and practices of the military departments for settling contractor overhead rates and for making cost determinations vary within and between each department. While this may be practical in view of the organizational differences involved, it is somewhat confusing to industry and it is difficult from the DoD viewpoint to properly manage and control the overhead function. Corollary to this problem is the assignment of responsibility to DCAA for making unilateral determinations regarding disallowable costs and the settlement of final overhead rates on an "actual" basis. Is greater uniformity in applying the cost principles desirable, and, if so, how can it be achieved?

Subtopic Assignments:

Panelist

1. Organizing for Negotiating Overhead Rates

Army -
Ray Harris

While recommendations concerning this subtopic were developed at the Hershey Conference, these should be updated in the light of current experience and events that transpired during the past year.

2. Cost and Overhead Rate Determinations

DCAS -
Ray Dellas

Present DoD policy and practice requires the auditor to make unilateral decisions concerning allowability of cost.

3. Uniform Cost Determinations

DCAA -
Michael Francone

How can greater uniformity be achieved? Do we need reorganization or realignment of functions to accomplish this, or can the cost principles be applied within the existing framework to achieve the desired degree of uniformity?

4. Forward Pricing Rates

Navy -
Jacob Catoe

Is there a need for forward pricing rates? Do forward pricing rates expedite the accomplishment of high-volume, small dollar value pricing actions? What are the advantages/disadvantages of forward pricing rates when compared with audit recommended rates? Is the use of such rates compatible with the requirements of P.L. 87-653?

B. Major Subject: Contractor Systems Review Programs

Areas of Interest: The numerous reviews of contractor management systems developed within the DoD have been designed to reduce the day-to-day reviews of individual procurement actions that would otherwise be necessary. To equip us to do a more effective job in these areas and to anticipate increase in pricing workloads during the 1970's, we should look at these system reviews to determine whether any changes should be made. The two primary system review programs with which we are concerned are the Contractor Estimating Methods Review Program and the Contractor Procurement System Review Program.

Subtopic Assignments:

Panelist

1. Contractor Estimating Methods
Review Program

Air Force -
Gordon Arthur

Is this program worthwhile? Can it be made effective in light of the lack of contractual authority to require contractor compliance with any changes recommended? Do buying offices and procurement officials use these reports, and are they effective? Is the time being devoted to this program by the review team worthwhile? Can a measurable result be obtained from such reviews?

2. Contractor Procurement System
Review Program

NASA -
James Cravens

Can this program be improved by achieving greater uniformity or assigning it to a single DoD organization?

C. Major Subject: Improving Pricing Techniques

Areas of Interest: It is recognized that many techniques for improving pricing were developed at the Hershey Conference. However, recognizing the need for continuous improvement in this area, the subtopics listed below are considered worthy of review and reconsideration in the light of current conditions. Any recommendations developed by individual panelists should recognize any recommendations made at Hershey.

Subtopic Assignments:

Panelist

1. Catalog Pricing

Air Force -
Evert Tom

The increased use of catalog pricing by contractors in reaction to P.L. 87-653 requires a review of present policies concerning catalog pricing.

2. Management of Pricing Data

Navy -
David Johnson

How is this data acquired, accumulated and disseminated for use by procurement officials? Is there a better way?

3. Improving pricing analysis (as contrasted to cost analysis) techniques in determining reasonableness of pricing.

DGSC -
Col. Edward
Bartlett, USAF

The advantages of price analysis are clearly described in ASPR. The use of price analysis techniques is encouraged, in procurements under \$100,000; yet no new or unique techniques have been developed in recent years

for accomplishing price analysis. This should be reviewed from the viewpoint of the PCO and the CAS office to determine whether increased use can be made of this technique in procurement pricing.

4. Subcontractor Pricing Reviews

OASD(I&L) -
Charles Jarrett

ASPR policies are quite clear in requiring the prime contractor to accomplish price and cost analysis of subcontract proposals. However, there is a difference of opinion between the departments/agencies as to the extent the Government should perform such reviews.

5. Measuring Utility and Effectiveness
of the CAS Pricing Function

Air Force -
Richard White

A great number of resources are devoted to the pricing function, both at CAS and buying activities. To equip us for the 1970's, we should have a better means of measuring these resources, and their utility and effectiveness in contributing to the pricing portion of the total procurement process.

6. Obtaining Access to Data Required to
Perform Review and Evaluation of
Contractor Proposals

DCAS -
George Strouse

Present ASPR policies should be reviewed to determine if it is too restrictive on PCO and CAS components and should be changed.

D. Major Subject: Functions of Pricing Organizations

Areas of Interest: The present organizational philosophy of the DoD is that field pricing support should be utilized by buying activities rather than have each buying activity establish its own total pricing capability. It is recognized that a proposal to consolidate the field contract administration and audit organizations

was made at Hershey and that no additional deliberations in this area are necessary. However, the alignment, or realignment, of functions between the buying and contract administration offices should be under constant review to determine whether improvements can be made, particularly within the pricing function, in years to come.

Subtopic Assignments:

Panelist

1. Field Pricing Support to the PCO

Army -
Harry Rockafeller

Is this support adequate or can it be improved?

2. The CAS Role in Negotiating Final Prices

Navy -
Capt. Gilbert
Young

Should CAS be given additional assignments in this area and what is their function relative to pre-award pricing reviews?

3. After-the-Fact Pricing Function

Navy -
Leroy Haugh

What is the CAS role in the after-the-fact pricing function and should CAS be given any final responsibility in this area?



Seated left to right: Mr White, Mr Tom, Mr Cravens, Capt Young, Mr Rockafeller, Mr Harris, Col Robertson, Col Bartlett, Mr Francone, Mr Strouse, Mr Chapman, Mr Haugh.